

**ORIGINAL**  
**KIRKLAND & ELLIS** **EX PARTE OR LATE FILED**  
PARTNERSHIPS INCLUDING PROFESSIONAL CORPORATIONS

Steven G. Bradbury  
To Call Writer Directly:  
(202) 879-5082

655 Fifteenth Street, N.W.  
Washington, D.C. 20005

202 879-5000

Facsimile:  
202 879-5200

April 12, 2000

**BY HAND**

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
The Portals  
445 Twelfth Street, S.W.  
12<sup>th</sup> Street Lobby, TW-A325  
Washington, DC 20554

**RECEIVED**  
**APR 12 2000**  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**Re: GTE Corp. and Bell Atlantic Corp., CC Docket No. 98-184**

Dear Ms. Roman Salas:

Enclosed are two copies of an *ex parte* to be filed on the public record in the above-referenced docket. By copy of this letter, I am hand delivering this document to the persons listed below.

If you have any questions, please contact me.

Very truly yours,

  
Steven G. Bradbury

Enclosure

cc (w/encl.): Dorothy Attwood  
Rebecca Beynon  
James Bird  
Michelle Carey  
Kyle Dixon  
Jordan Goldstein  
Johanna Mikes  
Paula Silberthau  
Lawrence Strickling  
Sarah Whitesell  
Christopher Wright

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As filed with the Securities and Exchange Commission on April 7, 2000

Registration No. 333-

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

### GENUITY INC.

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**7370**  
(Primary Standard Industrial  
Classification Code Number)

**74-2864824**  
(I.R.S. Employer  
Identification No.)

**3 Van de Graaff Drive  
Burlington, Massachusetts 01803  
(781) 262-3000**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**PAUL R. GUDONIS**  
Chairman and Chief Executive Officer  
**3 Van de Graaff Drive  
Burlington, Massachusetts 01803  
Telephone: (781) 262-3000  
Telecopy: (781) 262-3408**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

#### Copies to:

**KEITH F. HIGGINS, ESQ.  
PATRICK O'BRIEN, ESQ.  
Ropes & Gray  
One International Place  
Boston, Massachusetts 02110  
Telephone: (617) 951-7000  
Telecopy: (617) 951-7050**

**IRA H. PARKER, ESQ.  
General Counsel  
3 Van de Graaff Drive  
Burlington, Massachusetts 01803  
Telephone: (781) 262-3000  
Telecopy: (781) 262-3408**

**JOHN T. BOSTELMAN, ESQ.  
Sullivan & Cromwell  
125 Broad Street  
New York, New York 10004  
Telephone: (212) 558-4000  
Telecopy: (212) 558-3588**

*Approximate date of commencement of proposed sale to the public:* As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

#### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Class A common stock, par value \$0.01 per share . . .	\$10,000,000	\$2,640

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion. Dated \_\_\_\_\_, 2000.

PROSPECTUS

Shares  
**GENUITY**  
Class A Common Stock

We are offering \_\_\_\_\_ shares of our Class A common stock. This is our initial public offering and no public market currently exists for our shares. We anticipate that the initial public offering price will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share.

We intend to apply for quotation of our Class A common stock on the \_\_\_\_\_ under the symbol “\_\_\_\_\_”.

Investing in our Class A common stock involves risks. See “Risk Factors” beginning on page 7.

PRICE \$ \_\_\_\_\_ PER SHARE

	Price to Public	Underwriting Discounts	Proceeds to Genuity
Per Share .....	\$ _____	\$ _____	\$ _____
Total .....	\$ _____	\$ _____	\$ _____

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters the right to purchase up to an additional \_\_\_\_\_ shares to cover over-allotments. Morgan Stanley & Co. Incorporated and Salomon Smith Barney Inc. expect to deliver the shares to purchasers on \_\_\_\_\_, 2000.

*Joint Book-Running Managers*

MORGAN STANLEY DEAN WITTER      SALOMON SMITH BARNEY

, 2000

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Until \_\_\_\_\_, 2000, which is the 25th day after the date of this prospectus, all dealers that buy, sell or trade our Class A common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information that is different from that contained in this prospectus. We are offering to sell and seeking offers to buy these securities only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of the prospectus or of any sale of the Class A common stock.

For investors outside the United States, neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

Genuity is our registered trademark in the United States and the Genuity logo is subject to our pending application for registration as a trademark in the United States. The titles and logos associated with our products and services appearing in this prospectus are either federally registered trademarks and service marks or are subject to pending applications for registration as trademarks and service marks. Our trademarks and service marks may also be registered in other jurisdictions. All other trademarks or trade names appearing elsewhere in this prospectus are the property of their respective owners.

## PROSPECTUS SUMMARY

*You should read the following summary together with the more detailed information about Genuity and the Class A common stock being offered in this offering and our combined financial statements and accompanying notes appearing elsewhere in this prospectus. In this prospectus, "GTE" refers to GTE Corporation and its subsidiaries other than Genuity, "Bell Atlantic" refers to Bell Atlantic Corporation and its subsidiaries prior to the merger with GTE and "Verizon" refers to Bell Atlantic doing business as Verizon Communications, the name under which Bell Atlantic will operate after the merger with GTE, and its subsidiaries, including GTE. "Genuity", "we", "us" and "our" each refers to Genuity Inc. and its subsidiaries and not to the underwriters, GTE, Bell Atlantic or Verizon. Except as otherwise indicated, all information in this prospectus assumes no exercise of the underwriters' option to purchase additional shares of Class A common stock to cover over-allotments and also assumes that the merger between Bell Atlantic and GTE closes concurrently with, or immediately following, the completion of this offering.*

## GENUITY

We are a leading facilities-based provider of high quality, managed Internet infrastructure services to enterprises and service providers. We offer a comprehensive suite of managed Internet infrastructure services, including: Internet access through dial-up, dedicated and digital subscriber lines; web hosting and content delivery; and value-added e-business services, such as virtual private networks for secure data transmission, security services and voice-over-Internet Protocol. We operate a state-of-the-art global network that consists of recently deployed broadband fiber optic cable in the United States, points of presence, secure and fault-tolerant data centers and undersea and international fiber optic cable capacity. Our large base of on-network users and content, combined with our extensive network, positions us as one of the leading Internet backbone providers in the world, a status commonly referred to as a Tier 1 Internet backbone provider. We believe that service providers are increasingly connecting to networks with substantial on-network content to improve the quality of their customers' experience, which in turn drives demand by enterprises seeking to connect to networks with large numbers of users. We believe that by taking advantage of this demand cycle, which we call the "network effect", we will continue to drive significant demand for our services from both enterprises and service providers and differentiate ourselves from non-Tier 1 Internet backbone providers. As of March 31, 2000, we provided services to approximately 6,500 enterprises, such as Cabletron Systems, Yahoo! and ZDNet, and to approximately 500 service providers, such as America Online, NetZero and WebTV in the United States and I.NET and Tiscali in Italy. In 1999, our revenues were approximately \$750 million, and we incurred net losses of approximately \$627 million.

Unlike many recent entrants into the Internet industry, we have more than three decades of experience in designing and implementing the architecture of the Internet and with solving computer networking problems. In 1969, our predecessor, BBN Corporation, designed and helped to implement ARPAnet, which is widely recognized as the basis for the Internet today. Our network is recognized as the first Internet backbone and, accordingly, was designated AS-1. We also developed the first Internet router, delivered the world's first e-mail message and pioneered the use of the "@" symbol as a universal addressing standard for electronic mail. More recently, we were one of the first to offer commercially managed web hosting services and managed security services through outsourced firewall monitoring.

## THE OPPORTUNITY

The Internet has experienced tremendous growth in the past decade and has emerged as an important global medium for communications and commerce. As the Internet and data traffic have grown, the cost and complexity for enterprises and service providers to manage their own network infrastructure demands in-house

has increased. As a result, enterprises and service providers seek to outsource their infrastructure needs to Internet infrastructure service providers that can speed their time-to-market, improve performance, scalability and security, provide continuous operation of their web sites and reduce the costs and risks associated with developing an in-house solution. As enterprises and service providers continue to outsource these requirements, they demand that Internet infrastructure service providers deliver a high quality Internet experience for their users. We believe leading Internet infrastructure service providers must offer a comprehensive suite of managed Internet infrastructure services, a large base of on-network users and content, reliable and scalable network facilities, Tier 1 Internet connectivity and the experience and expertise necessary to provide a complete Internet infrastructure solution.

### OUR SOLUTION

Our solution enables our customers to outsource their Internet infrastructure requirements to a single provider and to scale their Internet operations in a cost-effective and reliable manner. The key elements of our solution include:

- *Comprehensive Suite of Managed Internet Infrastructure Services.* We offer a broad range of managed Internet infrastructure services, including: Internet access; web hosting and content delivery; and value-added e-business services.
- *Large Base of On-Network Users and Content.* We carry a significant amount of traffic over our Tier 1 Internet backbone, allowing enterprises and service providers to directly route traffic to, or receive content from, a significant number of other customers without the need to pass through private peering connections or overloaded public peering points.
- *State-of-the-Art Network.* We operate a state-of-the-art, high capacity global fiber optic network that is highly reliable and scalable and has been equipped with advanced optical electronic equipment. Our network includes over 17,500 route miles of fiber optic cable in the United States, undersea and international fiber optic cable capacity and 10 data centers for web hosting services.
- *High Performance, Tier 1 Internet Connectivity.* We provide high performance connectivity to the Internet through our Tier 1 Internet backbone and extensive high speed private peering relationships with other major Internet backbone providers.
- *Significant Internet Protocol Engineering and Architectural Expertise.* Drawing upon the breadth and depth of our IP and networking experience and expertise, including our 756 engineers and 1,119 technicians, we are able to quickly and cost-effectively identify the Internet infrastructure requirements of our customers and design and implement appropriate solutions.

### OUR STRATEGY

Our objective is to be the leader in architecting, building and operating the infrastructure for the Internet economy. The principal elements of our strategy for pursuing this objective include:

- leveraging the network effect;
- expanding our capacity and state-of-the-art network;
- continuing to build and own our network facilities;
- expanding our distribution capabilities;
- pursuing strategic transactions and alliances;
- using our extensive IP and networking expertise to develop new services; and
- establishing Genuity as a leading brand for managed Internet infrastructure services.

## **OUR RELATIONSHIP WITH VERIZON**

We are currently a wholly owned subsidiary of GTE Corporation. In July 1998, Bell Atlantic Corporation and GTE agreed to enter into a merger of equals transaction. We anticipate that the merger between Bell Atlantic and GTE will close concurrently with, or immediately following, the completion of this offering. In April 2000, Bell Atlantic and GTE announced that following their merger, they will operate under the name Verizon Communications.

Under the Telecommunications Act of 1996, the Regional Bell Operating Companies, including the Bell Atlantic local telephone operating companies, and their respective affiliates are generally prohibited from providing long distance services that originate in any state in which they operate an incumbent local telephone company. These provisions restrict the operations of these companies until they have satisfied a 14-point competitive checklist under Section 271 of the Telecommunications Act and obtained authority from the Federal Communications Commission to provide long distance services in the states in which they operate an incumbent local telephone company.

Bell Atlantic is an incumbent local telephone company in 13 states, from Maine to Virginia, and the District of Columbia. Bell Atlantic has obtained the necessary authorization to provide long distance service originating in New York. Because we provide services in Bell Atlantic's region that could be characterized as long distance services, Bell Atlantic and GTE cannot complete their merger until they either (1) receive relief from the Telecommunications Act restrictions for the remaining states in which Bell Atlantic provides local telephone services or (2) implement a structure that complies with the requirements of the Telecommunications Act.

To ensure compliance with the requirements of the Telecommunications Act and to receive Federal Communications Commission approval of their merger, Bell Atlantic and GTE have proposed a structure to the Federal Communications Commission under which (1) GTE will exchange all of the currently outstanding shares of our common stock for shares of our Class B common stock and (2) we will make this offering of our Class A common stock. As a result, immediately after completion of this offering, the investors purchasing shares in this offering will own shares of our Class A common stock possessing 90% of the total voting power of our capital stock and GTE will own shares of our Class B common stock possessing 10% of the total voting power of our capital stock. As described in the section entitled "Description of Capital Stock", our Class B common stock is convertible at any time into shares of our Class C common stock that represent approximately 82% of our total capital stock and possess approximately 96% of the total voting power of our capital stock, in each case before giving effect to any outstanding options to purchase shares of our common stock, the exercise of the underwriters' over-allotment option or other additional issuances of our common stock. If the underwriters fully exercise their over-allotment option, our Class B common stock would be convertible into shares of Class C common stock representing 80% of our total capital stock.

Under the terms of the proposal to the Federal Communications Commission, the shares of Class B common stock held by Verizon must be converted on or prior to \_\_\_\_\_, 2005, subject to extension under the circumstances described in the section in "Description of Capital Stock" entitled "Conversion". Assuming no additional issuances of our common stock after completion of this offering, Verizon will control us if and when it converts its Class B common stock into Class C common stock. Subject to limited exceptions, if Verizon is unable to convert its shares of Class B common stock within this time period, it would be required to dispose of those shares.

Bell Atlantic and GTE are required to receive the formal approval of the Federal Communications Commission to the proposed structure.

## **OUR CORPORATE INFORMATION**

We have recently changed our name from GTE Internetworking Incorporated to Genuity Inc. Our principal executive offices are located at 3 Van de Graaff Drive, Burlington, Massachusetts 01803 and our telephone number is (781) 262-3000.

## THE OFFERING

Class A common stock offered . . . . . shares

Common stock to be outstanding after  
this offering . . . . .

	Immediately After Offering			Assuming Full Conversion of Class B Common Stock		
	Shares	Total Equity Percentage	Total Voting Percentage	Shares	Total Equity Percentage	Total Voting Percentage
Class A common stock . . . .		90%	90%		18%	4%
Class B common stock . . . .		10%	10%	—	—	—
Class C common stock . . . .		—	—		82%	96%

If the underwriters fully exercise their over-allotment option, after conversion of the Class B common stock into Class C common stock, the Class A common stock would represent 20% of our total common stock and the Class C common stock would represent 80% of our total common stock.

The above information is before giving effect to options outstanding under our long-term incentive plans and before additional issuances of shares of our common stock.

Voting rights . . . . .

Except as required by law or as described below, the holders of our Class A common stock, Class B common stock and Class C common stock vote together as a single class on all matters submitted to a vote of our stockholders.

Each share of Class A common stock entitles the holder to one vote per share. Until less than 50% of the shares of Class B common stock outstanding at the completion of this offering remain outstanding, no holder or group of holders of Class A common stock may vote any of those shares in excess of 15% of the aggregate number of the then outstanding number of shares of Class A common stock.

Each share of Class B common stock entitles the holder to one vote per share. We are required to obtain the consent of the holders of Class B common stock before taking specific actions, including making significant acquisitions, entering into major business combinations, incurring indebtedness in excess of specified limits and issuing additional equity securities. At the completion of this offering, all outstanding shares of Class B common stock will be indirectly owned by Verizon.

Each share of Class C common stock entitles the holder to five votes per share. Only Verizon and its affiliates may own Class C common stock.



Conversion . . . . . Our Class B common stock held by Verizon and its affiliates is convertible into shares of Class C common stock. If the underwriters fully exercise their over-allotment option and assuming no additional issuances of our common stock and before giving effect to any options outstanding under our long-term incentive plans, when our shares of Class B common stock are converted into shares of Class C common stock, they will represent 80% of the shares of our outstanding common stock.

Class B common stock held by persons other than Verizon and its affiliates is convertible into Class A common stock. The number of shares of Class A common stock into which those shares of Class B common stock are convertible is equal to the number of shares of Class C common stock into which those shares would be convertible if they were held by Verizon and its affiliates.

Our Class C common stock is convertible into Class A common stock at any time. Each share of Class C common stock will automatically convert into one share of Class A common stock if at any time the aggregate number of outstanding shares of Class C common stock, together with any shares of Class C common stock issuable upon conversion of Class B common stock, and the number of shares of Class A common stock controlled by Verizon and its affiliates, constitute less than 10% of our then outstanding common stock.

Verizon may acquire additional shares . . . . . If Verizon holds shares of Class A common stock and Class C common stock that in the aggregate exceed 70% of the total number of shares of our common stock, Verizon may acquire from us a number of shares of Class A common stock so that it will own shares of common stock equal to 80% of the total number of our shares of common stock.

Use of proceeds . . . . . For capital expenditures in connection with the expansion of our network infrastructure, increased sales and marketing activities, funding our operating losses and general corporate purposes, including working capital and possible acquisitions of and investments in other businesses and technologies.

Proposed stock symbol . . . . .

## SUMMARY COMBINED FINANCIAL DATA

The following tables present our summary combined financial data. The financial data presented in these tables are from "Selected Combined Financial Data" and our combined financial statements and accompanying notes included elsewhere in this prospectus. You should read those sections for a further explanation of the financial data summarized here.

Our combined financial statements have been carved out from the consolidated financial statements of GTE using the historical results of operations and historical bases of the assets and liabilities of Genuity. Accordingly, the historical financial information we have included in this prospectus does not necessarily reflect what our financial position, results of operations and cash flows would have been had we been a separate, stand-alone entity during the periods presented.

	<b>Year Ended December 31,</b>	
	<b>1998</b>	<b>1999</b>
	<b>(in thousands, except per share data)</b>	
<b>Results of Operations Data:</b>		
Revenues . . . . .	\$ 471,538	\$ 750,424
Cost of goods sold . . . . .	512,967	786,965
Selling, general and administrative . . . . .	316,491	399,529
Operating loss . . . . .	(462,443)	(624,737)
Net loss . . . . .	(467,040)	(626,689)
Basic and diluted loss per common share . . . . .	( )	( )
Basic and diluted weighted-average common shares outstanding . . . . .		

The as adjusted column in the combined balance sheet data below reflects our recapitalization and the sale of shares of Class A common stock in this offering at an assumed initial public offering price of \$ per share and the application of the net proceeds, after deducting estimated underwriting discounts and offering expenses payable by us.

	<u>As of December 31, 1999</u>	
	<u>Actual</u>	<u>As Adjusted</u>
	<u>(in thousands)</u>	
<b>Balance Sheet Data:</b>		
Cash and cash equivalents . . . . .	\$ 6,044	\$
Working capital . . . . .	(258,480)	
Property, plant and equipment, net . . . . .	1,524,390	
Total assets . . . . .	2,373,159	
Total long-term liabilities . . . . .	133,553	
Total liabilities . . . . .	669,815	
Stockholders' equity . . . . .	1,703,344	

## RISK FACTORS

*Investing in our Class A common stock involves a high degree of risk. You should carefully consider the following factors, as well as other information contained in this prospectus, before deciding to invest in shares of our Class A common stock. If any of the following risks actually occurs, our business, financial condition and results of operations could suffer, in which case the trading price of our Class A common stock could decline and you may lose all or part of your investment.*

### Risks Related to Our Business

**We have a history of significant operating losses and expect these losses to continue for at least the next several years.**

We have experienced operating losses in each quarterly and annual period since 1996. Given the level of our planned operating and capital expenditures, we expect to continue to incur significant operating losses for the foreseeable future. We incurred operating losses of approximately \$462 million in 1998 and approximately \$625 million in 1999. As of December 31, 1999, we had an accumulated deficit of approximately \$1.3 billion. We plan to continue to make significant investments to expand our capacity and network infrastructure, develop brand recognition, broaden the range of our service offerings and expand our sales, marketing, technical and customer support personnel. Our capital expenditures program, as currently contemplated, will require between \$11 billion and \$13 billion during the five-year period ending December 31, 2004, the majority of which will be for the expansion of our network infrastructure. A substantial portion of these expenditures will be made long before any significant revenue related to these expenditures may be realized. In addition, our operating expenses are based largely on anticipated revenue trends and a significant portion of our expenses, such as personnel, the leased portion of our network and our real estate facilities and depreciation of our network infrastructure, is fixed. If our revenues fall below our expectations, we would probably not be able to reduce our fixed or variable expenses in sufficient time to respond to the shortfall. If we fail to achieve significant increases in our revenues as a result of our investments, the size of our operating losses may be larger than expected. We may never achieve profitability or generate positive cash flows from operations, and if we do achieve profitability or positive cash flows from operations in any period, we may not be able to sustain or increase profitability or positive cash flows on a quarterly or annual basis.

**If we do not maintain or increase our market share and therefore are no longer considered a Tier 1 Internet backbone provider, we may lose customers and our free peering relationships with other Tier 1 Internet backbone providers. If this occurs, our revenues and operating results may decline significantly.**

We rely significantly on our status as a Tier 1 Internet backbone provider to maintain and grow our market share and compete with other Tier 1 Internet backbone providers, several of which have a larger market share than we do. Any significant loss of market share for our services could cause the loss of our status as a Tier 1 Internet backbone provider, which would make our services significantly less attractive to existing and potential customers and would likely result in a significant loss of revenues. In addition, the loss of market share or our status as a Tier 1 Internet backbone provider would adversely affect our ability to maintain our free private peering relationships with other Tier 1 Internet backbone providers. Currently, these relationships permit us to have direct, cost-free exchange of traffic with other Tier 1 Internet backbone providers and allow us to avoid the congestion of public peering points when directing traffic to users connected to those other Internet backbones. If we are unable to maintain these free peering relationships, our operating costs will increase and our results of operations will suffer. To increase or at least maintain our market share and maintain our status as a Tier 1 Internet backbone provider, it is critical that a significant amount of worldwide Internet traffic be carried on our Internet backbone. To generate significant Internet traffic, we must:

- continue to increase the amount of content available on our network infrastructure by successfully marketing our web hosting and high speed dedicated Internet access services to enterprises, particularly enterprises that operate high traffic web sites; and

- continue to increase the number of users that access the Internet through our Internet backbone by successfully marketing our Internet access services to service providers.

We may not be successful in marketing our services to enterprises and service providers if we fail to expand our capacity and network infrastructure to meet increasing demand or to competitively price or expand our services or if we experience network performance and reliability problems.

**If we were to lose a significant portion of our revenues from America Online, we would not be able to replace those revenues in the short term and our operating losses would increase significantly.**

America Online accounted for approximately 53% of our revenues in 1998 and 52% of our revenues in 1999. We expect that revenues from America Online will continue to represent a significant portion of our revenues for the next several years. America Online also uses the services of some of our competitors. America Online has the right to terminate its agreement with us on short notice if we materially breach the agreement, including our failure to meet specific performance targets. America Online also has the right to reduce its purchase commitments if we, among other things, fail to meet specific delivery and performance targets or fail to meet our obligation to provide most favored customer pricing. The termination of, or a significant adverse change in, our relationship with America Online would have a material adverse effect on our business and results of operations. In addition, upon a change in control of Genuity, America Online has the right to terminate the agreement. A transfer of Verizon's interest in Genuity to an unrelated party may constitute a change in control of us. You should refer to the section in "Business" entitled "Our Relationship With America Online" for additional information about our relationship with America Online.

**If we cannot obtain the additional capital we will require to fund our operations and finance the expansion of our capacity and network infrastructure, we will have to delay or abandon our development and expansion plans.**

We will need significant additional capital to fund our business plan and achieve profitability. We currently intend to spend \$11 billion to \$13 billion over the five-year period ending December 31, 2004, of which approximately \$1.8 billion to \$2.0 billion is expected to be spent during 2000, on the continued expansion of our network infrastructure and other capital expenditures. During the past three years, our capital needs have been satisfied with permanent capital contributions from GTE or financing from its affiliates. However, following this offering, Verizon is not obligated to provide funds to finance our capital expenditures, working capital or other cash requirements. We currently intend to obtain additional capital through public offerings or private placements of debt or equity securities and through borrowings under future credit facilities. However, we are required to obtain the consent of the holders of our Class B common stock before issuing any shares of our capital stock and our agreement with Verizon limits our ability to incur debt in excess of specified amounts without its consent. You should refer to the risks described below under "Risks Related to Our Relationship with Verizon", the section in "Related Party Transactions" entitled "Subscription Agreement" and the section entitled "Description of Capital Stock" for a more detailed discussion of the rights of our Class B common stock. The issuance of additional equity would be dilutive to the holders of our common stock. We may be unsuccessful in raising sufficient capital on terms that we consider acceptable, when needed or at all. If this happens, we would have to delay or abandon our development and expansion plans, which would adversely affect our competitive position.

**If we do not compete effectively, particularly against established participants with greater financial and other resources than ours, we will lose market share, which will make our services less attractive to our existing and prospective customers.**

The market for managed Internet infrastructure services is extremely competitive and subject to rapid change. We expect to encounter increased competition in the future as a result of increased consolidation and strategic alliances in the industry. In addition, we will increasingly compete with foreign service providers as we expand internationally and as these service providers increasingly compete in the United States. Our principal competitors in the managed Internet infrastructure services market include:

- Internet infrastructure service providers with a global presence such as UUNET Technologies, a subsidiary of MCI WorldCom, AT&T, Sprint and Cable & Wireless, each of which offers similar

services and possesses the network scale and on-network users and content to offer their customers connectivity to virtually all addresses on the Internet, either directly through their Internet backbone or through cost-free, high speed private peering relationships;

- Internet service providers that have a significant regional, national or international presence but do not offer as broad a range of services or possess fewer users and less on-network content, such as Level 3 Communications, Qwest Communications, KPNQwest, Deutsche Telekom, PSINet and Verio Communications; and
- companies that service generally only one or a few specific Internet infrastructure needs of enterprise customers, including web hosting companies such as Digex and Exodus Communications; broadband Internet access providers, such as Covad Communications and Rhythms NetConnections; providers of security and virtual private networks, such as Pilot Network Services; and transport service providers, such as Level 3 Communications, Qwest Communications and Williams Communications Group.

Numerous other companies from a variety of industries have also focused on our target market. For example, many of the major cable companies have begun offering, or are exploring the possibility of offering, Internet access by engineering their current networks to include Internet access capabilities. Direct broadcast satellite and wireless communications providers have also entered the Internet access market with various wireless and satellite-based service technologies. We have no patented technology that would preclude or inhibit competitors from entering our market.

Many of these existing competitors have and potential competitors may have greater financial and other resources, more customers, a larger installed network infrastructure, greater market recognition and more established relationships and alliances in the industry. As a result, these competitors may be able to develop and expand their network infrastructure and service offerings more quickly, adapt more swiftly to new or emerging technologies and changes in customer demands, devote greater resources to the marketing and sale of their offerings, pursue acquisitions and other opportunities more readily and adopt more aggressive pricing policies. UUNET has substantially greater market share and resources than we do. In addition, MCI WorldCom and Sprint have announced a proposed merger. We believe this proposed merger would substantially increase the market share and competitive position of UUNET, even if it were required to divest itself of portions of its Internet backbone as a condition of the merger. Some of our competitors are able to bundle their Internet service offerings with other complementary services, such as local and long distance voice, data transmission and video services, thereby reducing the overall cost of their services compared with ours. We may not be able to offset the effects of any of these actions. If we are unable to compete successfully, we would experience a loss in customers and the revenues that accompany that business.

**We expect that the rates we charge for our services will decline over time, and we may not be successful in reducing our operating expenses or introducing new services that will compensate for these lost revenues.**

We expect to continue to experience decreasing prices for our services as we and our competitors increase transmission capacity on existing and new networks, as a result of our current agreements with customers, through technological advances or otherwise, and as volume-based pricing becomes more prevalent. For example, at specified times during the course of our agreement with America Online, America Online has the right to seek a reduction in the fees paid to us for access ports and digital subscriber line and other broadband services. Accordingly, our historical revenues are not indicative of future revenues based on comparable traffic volumes. If the prices for our services decrease for whatever reason and we are unable to offer additional services from which we can derive additional revenues or otherwise reduce our operating expenses, our operating results will decline and our business and financial results will suffer.

**Our strategy contemplates future international expansion but there are significant operational and financial risks associated with international operations.**

Although we have not derived significant revenues from our international operations in the past, an important component of our strategy is to expand significantly our presence in international markets. We

currently have points of presence in Amsterdam, The Netherlands; Dublin, Ireland; Frankfurt, Germany; London, England (2); Milan, Italy; Paris, France; Sydney, Australia; and Tokyo, Japan. We also have data centers in Leeds, England and Tokyo, Japan that are operated by third parties. Accordingly, we are and will continue to be exposed to risks inherent in international operations, including, among others, the following:

- general economic, social and political conditions;
- unexpected changes in legal or regulatory requirements resulting in unanticipated costs and delays;
- differences in technology standards;
- tariffs, export and exchange controls and other trade barriers;
- fluctuations in foreign currency exchange rates;
- difficulty of enforcing agreements and collecting accounts receivables;
- adverse tax consequences;
- changes in United States laws and regulations relating to foreign trade and investment; and
- inability to offer some services in some countries due to regulatory and other barriers.

Further, to expand our international operations, we may enter into joint ventures or outsourcing agreements with third parties, acquire rights to high bandwidth transmission capability, acquire complementary businesses or operations or establish and maintain new operations outside the United States. We may be heavily dependent on third parties to be successful in our international operations. We may not be able to successfully sell our services or adequately establish or maintain operations outside the United States.

**If we are unable to manage our planned expansion effectively, we may incur increased costs, experience capacity constraints and place too many demands upon our management team.**

We are currently experiencing a period of rapid expansion and, if our business plan is successfully implemented, we expect our expansion to continue for the foreseeable future. This expansion will increase our operating complexity significantly and require significant time commitments from our management team and severely restrict their ability to manage our existing business. Our success depends on our ability to effectively manage this expansion and the demands it will impose on our management. We will, among many other things, need to:

- successfully expand our capacity and network infrastructure;
- improve our business development capabilities;
- hire, train and manage an increasing number of highly skilled employees; and
- continually enhance our information, management and operational and financial systems.

Our failure to manage our expansion effectively could increase our costs, adversely affect our relations with customers and suppliers, result in insufficient capacity over extended periods of time and adversely affect our revenues and operating margins.

**If we are not successful in achieving brand recognition for the Genuity name, our competitive position will be weakened and we could lose market share.**

There are a growing number of companies that offer Internet infrastructure services. We believe that brand recognition is an important competitive advantage in our industry. Establishing and maintaining our brand is necessary for expanding our customer base, solidifying business relationships and successfully implementing our business strategy. We only recently changed our name to Genuity and, to be successful, we must establish and strengthen our brand recognition. Because our brand is new, it currently has very limited recognition in the market. Our brand may not be viewed positively or be accepted by the market. We intend to incur significant

expenses to promote our brand. The expenses we incur toward building our brand, however, may not result in immediate returns and it may be a long time before enterprises, service providers and business partners recognize and make positive connections with our brand. If we fail to promote our brand successfully in domestic and international markets, our business may suffer. In addition, our brand may be diluted if customers do not perceive our services to be of high quality or if we fail to provide a satisfactory customer service experience. We may not be successful in achieving these goals.

**Our ability to develop, market and support our managed Internet infrastructure services depends on retaining our management team and attracting and retaining highly qualified individuals in the Internet industry.**

Our future success depends to a significant extent on the continued services of our management team, which has significant experience with data communications, telecommunications and managed Internet infrastructure services, as well as relationships with many of the enterprises, service providers and business partners that we currently or may in the future rely on in implementing our business plan. The loss of the services of our management team or any significant portion of it could have a substantial detrimental effect on our ability to execute our business strategy.

Our future success also depends on our continuing ability to identify, hire, train, assimilate and retain large numbers of highly qualified technical, sales, marketing and managerial personnel. The demand for qualified personnel is high and competition for their services is intense. The competition for qualified employees in the Internet industry is particularly intense in the Boston, Massachusetts area where our principal operations are located. We have from time to time experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. If we do not succeed in attracting new personnel or retaining our current personnel, our business will suffer.

**Our historical financial information may not be representative of our results of operations as a separate entity.**

Our combined financial statements have been carved out from the consolidated financial statements of GTE using the historical results of operations and historical bases of the assets and liabilities of our business. Accordingly, the historical financial information we have included in this prospectus does not necessarily reflect what our financial position, results of operations and cash flows would have been had we been a separate, stand-alone entity during the periods presented. GTE did not account for us, and we were not operated, as a separate, stand-alone entity for the periods presented. Our costs and expenses include allocations from GTE for centralized corporate services and infrastructure costs, including legal, accounting, treasury, real estate, information technology, distribution, customer service, sales, marketing and engineering. These allocations have been determined on bases that we and GTE considered to be reasonable reflections of the utilization of services provided to or the benefit received by us. The historical financial information is not necessarily indicative of what our financial position, results of operations and cash flows will be in the future.

**If we do not respond effectively and on a timely basis to rapid technological changes and evolving industry standards, our services may become obsolete and we would probably lose customers and be unable to attract new ones.**

The managed Internet infrastructure services and networking industries are characterized by rapid technological developments, evolving industry standards and customer demands and frequent new product and service introductions and enhancements. The introduction of new products or technologies could render our network or service offerings obsolete or otherwise reduce the cost or increase the supply of services similar to those that we provide or plan to provide. Accordingly, we may be required to make significant and ongoing investments in future periods in order to remain competitive. We may not be able to:

- anticipate or adapt to these new products or technologies on a timely and cost-effective basis;
- obtain the necessary funds to develop or acquire new technologies or products needed to compete; or

- address the increasingly sophisticated and varied needs of our current and prospective customers.

We believe that our ability to compete successfully is also dependent upon the continued compatibility and interoperability of our network and service offerings with products, services and architectures offered by others. Although we often work with vendors in testing newly developed products, these products may not be compatible with our infrastructure or be adequate to address changing customer needs. In addition, although we currently intend to support emerging standards, there can be no assurance industry standards will be established or, if they become established, that we will be able to conform to these new standards in a timely fashion and maintain a competitive position in the market. Our business would be harmed if we fail to conform to the prevailing standards, or if common standards fail to emerge.

**We may lose customers if we experience system failures that significantly disrupt the availability and quality of the services that we provide.**

Our operations depend on our ability to avoid and mitigate any damages, physical or otherwise, from natural disasters, power losses, capacity limitations, physical or electronic breaches of security, software defects, telecommunications failures and intentional acts of vandalism, including computer viruses. The failure of any equipment or facility on our network could result in interruptions in service or reduced capacity for our enterprise and service provider customers until we make the necessary repairs or install replacement equipment. In addition, our customers may experience interruptions in service if carriers or other service providers fail to provide the communications capacity that we have leased in order to provide service to our customers or if our peering arrangements suffer significant disruption. For example, in 1999 a third party provider from whom we lease capacity experienced a significant disruption. Further, as of December 31, 1999, over 50% of our traffic was transmitted over capacity that we lease from third parties. The failure of any one of these connections also could result in reduced performance. These interruptions in service or performance problems could undermine confidence in our services and cause us to lose customers or make it more difficult to attract new ones. For example, America Online has the right to reduce its purchase commitments and terminate its agreement with us if we fail to meet agreed upon performance levels. In addition, because many of our services are critical to the businesses of many of our customers, any significant interruption in our service could result in lost profits or other loss to our customers. Although we attempt to disclaim liability in our service agreements, a court might not enforce a limitation on our liability, which could expose us to financial loss. In addition, we often provide our customers with guaranteed service level commitments. If we do not meet the required service levels as a result of service interruptions, we may be obligated to provide credits, generally in the form of free service for a short period of time, to our customers, which could significantly reduce our revenues.

**If we do not safeguard the security and privacy of our network infrastructure, our reputation could be damaged and we could lose existing and prospective customers and the potential revenues they represent.**

The secure transmission of confidential information over networks, including our network, is critical to the acceptance of the Internet. Internet usage could decline if any well-publicized compromise of security occurs. Our customers often maintain confidential information on our servers, such as credit card and bank account numbers. We provide managed security services that are intended to provide a high level of protection for our customers' networks. Our managed security services include monitoring the network perimeters of our enterprise customers and using firewall management, maintenance and proactive response techniques to help ensure the security of access points into our customers' computing infrastructure. We rely on encryption and authentication technology to provide secure transmission of confidential information. Despite our efforts, we may not be successful in maintaining information as confidential or adequately safeguarding our customers' networks. Someone who is able to circumvent our security measures could misappropriate proprietary information or cause disruptions in our operations and those of our customers. Any compromise of security in our network could damage our reputation and cause us to lose existing and prospective customers. We may be required to expend significant capital and other resources to protect against, or to alleviate problems caused by, security breaches. In addition, a compromise of security may result in claims against us, which could be successful. These claims, regardless of their ultimate outcome, could result in costly litigation and could have a material adverse effect on our business and reputation and on our ability to attract and retain customers.



**We rely on limited sources for supplying critical components of our network infrastructure. If we are unable to obtain sufficient quantities of critical equipment from these sources when needed, we may be forced to delay our development and expansion plans, which would negatively affect our competitive position.**

We depend on vendors to supply the critical components of our network infrastructure as we expand our network both domestically and internationally. Some of our networking equipment is available only from one or a small number of sources. For instance, we rely on Cisco Systems for our network routers and Nortel Networks for our optical electronic equipment. We typically purchase or lease all of our components under purchase orders placed from time to time. We do not carry significant inventories of components and have no guaranteed supply arrangements with vendors. Our vendors also sell products to our competitors and we cannot assure you that they will not enter into exclusive arrangements with our competitors. In addition, we expect to depend for a time on others to deliver and manage our services for some of our international operations. If we are unable to obtain required products or services on a timely basis and at an acceptable cost, we may have to abandon or delay our expansion plans.

**We need to obtain additional capacity for our network from other providers in order to serve our customers and keep our costs down.**

We lease telecommunications capacity and obtain rights to use dark fiber from both long distance and local telecommunications carriers in order to extend the range of our network. Our inability to obtain this additional capacity on acceptable terms, or at all, could adversely affect our ability to quickly expand our network, attract new customers and serve our existing customers or could increase our costs of doing so.

**We must obtain permits and rights-of-way to develop our network infrastructure. If we do not obtain them in a timely fashion, we may have to delay our expansion plans.**

The expansion of our network infrastructure will require that we obtain licenses, permits and other rights, including rights-of-way and encroachment agreements and other permits to install conduit and related network equipment, from private landowners, utilities, railroads, local exchange carriers, state highway authorities, local governments and transit authorities. The process of obtaining these licenses, permits and rights can be time consuming and burdensome. In addition, if we are unable to obtain these licenses and permits on acceptable terms and on a timely basis, our ability to expand and operate our network would be severely limited and our business will not grow as we have planned.

#### **Risks Related to Our Relationship With Verizon**

**We need the consent of Verizon before taking the actions described below. Verizon is not required to grant its consent and may have interests that are different from ours. If Verizon does not grant its consent, we may not be able to make significant acquisitions or enter into major business combinations, incur indebtedness in excess of specified limits or issue equity securities.**

We are contractually obligated to obtain the consent of Verizon before we take any of the following actions:

- making acquisitions or entering into joint ventures involving cash, stock, stock equivalents or assets in excess of \$100 million individually or \$500 million in the aggregate during any 12-month period;
- making any dispositions of assets outside the ordinary course of business within the first two years after this offering and, thereafter, making dispositions of assets in excess of \$50 million individually or \$250 million in the aggregate in any 12-month period;
- incurring, during any 12-month period, indebtedness that exceeds a level of permitted indebtedness for that period to be jointly agreed upon by Genuity and Verizon prior to the completion of this offering;
- entering into agreements or arrangements that contain provisions that trigger a default or require a material payment if and when Verizon exercises its conversion right; and

- declaring extraordinary dividends or making other distributions to the holders of our common stock, including our Class A common stock.

In addition, our certificate of incorporation requires us to obtain the approval of the holders of our Class B common stock before we take any of the following actions:

- amending our certificate of incorporation or by-laws in a manner that adversely affects the rights of the holders of our Class B common stock;
- issuing capital stock, securities convertible into our capital stock or share equivalents, other than shares of our Class A common stock reserved at the time of this offering for issuance to employees and directors pursuant to our long-term incentive plans;
- agreeing to enter into a merger, consolidation or sale of all or substantially all of our assets or any similar transactions;
- filing or declaring of bankruptcy or any full or partial liquidation;
- authorizing additional capital stock;
- materially changing the nature or scope of our business; and
- taking an action that would make it unlawful for Verizon to exercise its conversion rights.

Verizon could prevent us from taking the actions described above. Verizon's interests and objectives, which may diverge from ours, may influence whether Verizon is willing to grant us any consents we may request. We may not be able to resolve potential conflicts between Verizon and us to our satisfaction, and if we cannot, our business may be harmed. Verizon's ability to prevent us from taking these actions will terminate under the circumstances described in "Related Party Transactions" in the section entitled "Subscription Agreement" and in "Description of Capital Stock" in the section entitled "Common Stock".

Verizon has the right to transfer some or all of its shares of Class B common stock to one or more persons. Verizon also may assign its contractual rights to transferees of the Class B common stock. In that event, these persons would be able to prevent us from taking the actions described above.

**If and when Verizon converts its Class B common stock into Class C common stock, Verizon will have the ability to exert significant control over our business.**

Upon completion of this offering, Verizon will hold through GTE, its wholly owned subsidiary, all of the outstanding shares of our Class B common stock, which will represent 10% of our outstanding voting capital stock at that time, before giving effect to any outstanding options to purchase shares of our common stock under our long-term incentive plans. If and when Verizon is permitted to own more than a 10% voting interest in our company under applicable federal law, Verizon will be able to convert its shares of Class B common stock into shares of Class C common stock that represent approximately 82%, or 80% if the underwriters fully exercise their over-allotment option, of our outstanding capital stock and possess approximately 96% of the total voting power of our capital stock, before giving effect to any outstanding options to purchase shares of our common stock or additional issuances of our common stock. After conversion of its Class B common stock, and if Verizon continues to beneficially own shares of capital stock representing more than 50% of voting power of our outstanding voting capital stock, Verizon will be able to exercise a controlling influence over us, including with respect to the election of our directors and the outcome of any corporate transaction or other matter submitted to our stockholders for approval. The voting power of Verizon could have the effect of delaying or preventing a change in control. The interests of Verizon may differ from the interests of our other stockholders.

Verizon may transfer some or all of its shares of Class B common stock without our consent or the consent of the holders of our Class A common stock. In that event, the transferee would be able to convert those shares into Class A common stock and, depending on the number of shares of Class B common stock

transferred by Verizon, might be able to exercise a controlling influence over us after converting its shares of Class B common stock.

**We have contracted with Verizon to provide us with a variety of transitional services for a limited period of time. We may experience transitional problems if we are unable to replace these services in a timely manner or on similar terms.**

We have not been operating as a stand-alone company. Affiliates of Verizon are contractually obligated to provide us with office and operating facilities and specified transitional services upon completion of this offering. If Verizon does not perform its contractual obligations under these agreements, we may not receive these services at the same level or obtain the same benefits as when we were part of GTE. The agreements for those transitional services generally terminate one-year after this offering. After the termination of these various arrangements, we may not be able to replace these transitional services or enter into appropriate leases in a timely manner or on terms and conditions, including cost, similar to those we will receive from Verizon or are otherwise acceptable to us. You should refer to the section entitled "Related Party Transactions" for more information about these arrangements.

#### **Risks Related to Legal Uncertainty**

**Our intellectual property protection may be inadequate to protect our proprietary rights, and we may be subject to infringement claims that could subject us to significant liability and divert the time and attention of our management.**

We regard our services and technology as proprietary. We attempt to protect them through a combination of patents, copyrights, trademarks, trade secret laws, contractual restrictions on disclosure and other methods. These methods may not be sufficient to protect our proprietary rights. We also generally enter into confidentiality agreements with our employees, consultants and customers, and generally control access to and distribution of our documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise misappropriate and use our technology without authorization, particularly in foreign countries where the laws may not protect our proprietary rights to the same extent as do the laws of the United States, or to develop similar technology independently. We may need to resort to litigation in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of resources and could harm our business.

In addition to licensing technologies from third parties, we are continuing to develop and acquire additional intellectual property. We expect that participants in our markets will be increasingly subject to infringement claims. Third parties may try to claim our services infringe their intellectual property. Any claim, whether meritorious or not, could be time consuming, result in costly litigation or require us to enter into royalty or licensing agreements. These royalty or licensing agreements might not be available on terms acceptable to us or at all, in which case we would have to cease selling, incorporating or using those services that incorporate the challenged intellectual property and expend substantial amounts of resources to redesign our services. If we are forced to enter into unacceptable royalty or licensing agreements or to redesign our services, our business and prospects would suffer.

**The regulation of the Internet is unsettled and future regulations could adversely affect our operating costs and business.**

The laws and regulations that apply to commerce and communication over the Internet are becoming more prevalent. Legislation could dampen the growth in Internet usage generally and decrease the acceptance of the Internet as a commercial medium. The United States Congress has recently considered or enacted Internet laws regarding children's privacy, copyrights, taxation and the transmission of sexually explicit material and other types of information. The European Union also recently enacted its own privacy regulations. The legal framework governing the Internet, however, remains largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws, including those governing

intellectual property, telecommunications, privacy, libel and taxation, apply to the Internet. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, which may impose additional burdens on companies conducting business over the Internet. If the Federal Trade Commission, Federal Communications Commission, local authorities or other governmental authorities adopt or modify laws or regulations relating to the Internet, our business could suffer.

**We face potential liability for the information disseminated through our network.**

The laws relating to the liability of Internet access providers for information carried on or disseminated through their networks is currently unsettled, both in the United States and abroad. In the United States, the Children's Online Protection Act of 1998 imposes criminal penalties and civil liability on anyone engaged in the business of selling or transferring material that is harmful to minors by means of the Internet without restricting access to this type of material by underage persons. In addition, similar legislation has been passed or is being considered in many states and foreign jurisdictions. The imposition upon us and other Internet access providers of potential liability for information carried on or disseminated through our networks could require us to implement measures to reduce exposure to liability, which may require the expenditure of substantial resources or the discontinuation of various service offerings. Further, the costs of defending against any claims and the potential adverse outcomes of these claims could have a material adverse effect on our business.

**We may be subject to regulation, taxation, enforcement or other liabilities in unexpected jurisdictions.**

We provide our managed Internet infrastructure services to customers located throughout the United States and internationally. As a result, we may be required to qualify to do business, or be subject to tax or other laws and regulations, in these jurisdictions even if we do not have a physical presence or employees or property in these jurisdictions. The application of these multiple sets of laws and regulations is uncertain, but we could become subject to regulation, taxation, enforcement or other liability in unexpected ways, which could materially adversely affect our business, financial condition and results of operations.

**Some of the services we provide may in the future be regulated by the Federal Communications Commission, states or foreign governments, which would significantly increase our operating complexity and operating expenses.**

Currently, our existing and planned managed Internet infrastructure services are not directly regulated by the Federal Communications Commission or any other government agency of the United States, except for those regulations that apply to businesses generally and those that apply to services provided by our subsidiary, GTE Telecom, which is classified as an "interexchange carrier" and provides primarily private line data services. Our Internet infrastructure services are generally classified as "information services" which are exempt from the regulations of the Federal Communications Commission. However, the way in which regulators view Internet infrastructure services is currently unsettled, and some private parties and regulators have raised questions about the current regulatory status of Internet service offerings. As a result, we, along with the rest of the Internet infrastructure service industry, may become subject to greater regulation in the future. The Federal Communications Commission may choose to impose a new set of regulations on providers of "information services" or it may reclassify Internet infrastructure services, such as those that we provide, as either private carrier services or telecommunications services. State and foreign governments may take similar actions. Although we believe that any regulation that applies to our business will likewise apply to our competitors offering similar services, some of our competitors are already regulated as telecommunications carriers due to their other services. As a result, these companies may be better able to operate in a regulated environment than we are. There is no way to predict the future regulatory framework of our industry. If existing telecommunications regulations are extended to the Internet, or if new regulations are imposed, it may restrict the way in which we offer our services, increase our cost of doing business or require us to exit some or all of our businesses. You should refer to the section in "Business" entitled "Regulatory Matters" for a more detailed description of the federal, state and international regulations applicable to businesses with services classified as either private carrier services or telecommunications services.

**If Verizon is unable to convert its Class B common stock to Class C common stock, we will not be able to realize the benefits of being a majority-owned subsidiary of Verizon.**

If Verizon is unable to convert its Class B common stock into Class C common stock, we may not realize the full benefits of our relationship with Verizon. These benefits include the ability to:

- offer combined packages of Internet infrastructure services and telephony services;
- obtain financing on more favorable terms than we otherwise could;
- integrate network infrastructure and reduce overhead costs; and
- take further advantage of the purchasing power of Verizon.

#### **Risks Related to the Securities Markets and this Offering**

**The trading price of the Class A common stock will anticipate the dilution that will result from future conversion of the Class B common stock.**

After this offering, the Class A common stock will represent 90% of our outstanding common stock and the Class B common stock will represent 10% of our outstanding common stock. Because we provide services in Bell Atlantic's local exchange region that could be characterized as long distance services pursuant to Section 271 of the Telecommunications Act of 1996, Verizon cannot own more than 10% of our outstanding common stock until permitted by law. If and when Verizon obtains sufficient relief from the long distance restrictions, Verizon may without additional payment convert its shares of Class B common stock into Class C common stock representing approximately 82% of our outstanding capital stock, based on the total number of shares of common stock outstanding upon completion of this offering. Regardless of whether Verizon obtains that approval, Verizon may also transfer its shares of Class B common stock to a party that could convert these shares into Class A common stock representing approximately 82% of our outstanding capital stock. Therefore, we anticipate that the Class B common stock will be converted into approximately 82% of our outstanding capital stock, leaving the Class A common stock as representing approximately 18% of our outstanding capital stock. The above figures would be 80% and 20%, respectively, if the underwriters' over-allotment option is exercised in full. We expect that upon completion of this offering, the trading price of the Class A common stock will reflect the dilution that will result from this future conversion of Class B common stock.

**The Class A common stock has limited voting rights in certain circumstances.**

Our charter provides that so long as 50% of the shares of Class B common stock outstanding on the date of this offering remain outstanding, including additional shares of Class B common stock issued to Verizon in connection with the exercise of the underwriters' over-allotment option, no person or group of persons acting together may vote more than 15% of our outstanding shares of Class A common stock.

**You may not be able to resell your shares at or above the price you paid.**

There has not been a public market for our Class A common stock. As a result, the initial public offering price will be determined by negotiations among the underwriters and us, and may not be indicative of prices that will prevail in the public trading markets. We also cannot predict the extent to which a trading market for our Class A common stock will develop or how liquid that market will be.

**The market price of our Class A common stock may be adversely affected by fluctuations in our quarterly and annual financial results.**

We may experience significant fluctuations in our future results of operations on a quarterly and annual basis due to a variety of factors, many of which are outside of our control. These factors include many of those described above. If our operating results fall below the expectations of securities analysts or investors in some future quarter or quarters, the market price of our Class A common stock could be negatively affected.

**The market price of our Class A common stock may be materially adversely affected by market volatility.**

The price at which our Class A common stock will trade following this offering is likely to be highly volatile and may fluctuate substantially. The price of the Class A common stock that will prevail in the market after this offering may be higher or lower than the price you pay, depending on many factors, including:

- our actual or anticipated quarterly results of operations, which may experience significant fluctuations;
- changes in financial estimates of our revenues and operating results by securities analysts;
- increased capital expenditures or delays in the expansion of our capacity and network infrastructure;
- actual or perceived difficulties in our ability to obtain sufficient financing on acceptable terms to fund our capital expenditures;
- announcements by us or our competitors of new services, significant acquisitions or strategic partnerships;
- a loss of or decrease in sales of services to major customers or a failure to complete significant transactions;
- additions or departures of key personnel;
- future sales of our common stock, particularly by our directors and officers; and
- commencement of, or involvement in, litigation.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of technology companies. As a result, investors in our Class A common stock may experience a decrease in the value of their Class A common stock regardless of our operating performance or prospects. The fluctuations in the price of our Class A common stock may affect our visibility and credibility in the Internet infrastructure services market and may affect our ability to secure additional financing on acceptable terms, if at all.

**Our business could be harmed by class action litigation relating to stock price volatility.**

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. Those companies, like us, that are involved in rapidly changing technology markets are particularly subject to this risk. We may be the target of litigation of this kind in the future. This securities litigation, if any, could result in substantial costs and divert management's attention and resources, which could cause serious harm to our business. We could also incur significant costs of damages as a result of such litigation.

**You will suffer immediate and substantial dilution in the book value of your investment.**

Assuming the full conversion of the Class B common stock outstanding on the date of this offering, the initial public offering price per share will significantly exceed the net tangible book value per share. Accordingly, investors purchasing shares in this offering will suffer immediate and substantial dilution of \$        per share in their investment, assuming an initial public offering price of \$        per share. You should refer to the information in the section entitled "Dilution" for more information.

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We have made statements under the captions "Prospectus Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business" and in other sections of this prospectus that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "intends", "future", "potential" or "continue", the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties, and assumptions about us, may include, among other things, projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business as well as projections relating to our capital expenditure requirements, our network expansion plans, our plans for transitioning customer traffic from leased capacity to our network, research and development initiatives and increases in sales and marketing personnel. These statements are only predictions based on our current expectations and projections about future events. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors discussed under the caption entitled "Risk Factors". You should specifically consider the numerous risks outlined under "Risk Factors".

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. When this prospectus is no longer required to be delivered, we are under no duty to update any of these forward-looking statements after the date of this prospectus to conform our prior statements to actual results or revised expectations.

## USE OF PROCEEDS

We estimate that the net proceeds from our sale of the                      shares of Class A common stock we are offering will be approximately \$                      million, assuming an initial public offering price of \$                      per share and after deducting estimated underwriting discounts and offering expenses payable by us. If the underwriters' over-allotment option is exercised in full, we estimate that our net proceeds will be approximately \$                      .

We intend to use the net proceeds of this offering for capital expenditures in connection with the expansion of our network infrastructure, increased sales and marketing activities, funding our operating losses and general corporate purposes, including working capital. We may also use a portion of the net proceeds to acquire or invest in businesses or products or to obtain the right to use complementary technologies. We have no current commitments or agreements with respect to any acquisition or investment. Pending these uses, we intend to invest the net proceeds in short-term, investment-grade, interest-bearing securities.

## DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We currently expect to retain earnings, if any, to finance the growth and development of our business. Therefore, we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. The decision whether to pay dividends will be made by our board of directors from time to time in light of conditions then existing including, among other things, our results of operations, financial condition and capital expenditure requirements. We must also obtain the consent of Verizon to declare extraordinary dividends or make other distributions on our Class A common stock. You should refer to the section in "Related Party Transactions" entitled "Subscription Agreement" for more information on this limitation.



## CAPITALIZATION

The following table sets forth our capitalization as of December 31, 1999:

- on an actual basis;
- on a pro forma basis to give effect to our recapitalization on \_\_\_\_\_, 2000; and
- on a pro forma as adjusted basis to give effect to the sale of the shares of Class A common stock offered by us in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share, after deducting estimated underwriting discounts and offering expenses payable by us.

This table should be read in conjunction with "Selected Combined Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our combined financial statements and accompanying notes included elsewhere in this prospectus.

	As of December 31, 1999		
	Actual	Pro Forma (in thousands)	Pro Forma As Adjusted
Note payable-affiliate .....	\$ 126,503	\$	\$
Current and noncurrent employee benefit obligations .....	70,103		
Long-term obligations .....	112,717		
Stockholders' equity :			
Class A common stock, par value \$ _____ per share, no shares authorized or issued and outstanding, actual; _____ shares authorized and _____ issued and outstanding, pro forma; and shares authorized and _____ issued and outstanding, pro forma as adjusted .....			
Class B common stock, par value \$ _____ per share, _____ shares authorized or issued and outstanding, actual, _____ shares authorized and _____ issued and outstanding, pro forma; and pro forma as adjusted .....			
Class C common stock, par value \$ _____ per share, no shares authorized or issued and outstanding, actual, pro forma and pro forma as adjusted .....			
Additional paid-in-capital .....	2,983,426		
Other comprehensive income .....	2,696		
Accumulated deficit .....	(1,282,778)		
Total stockholders' equity .....	1,703,344		
Total capitalization .....	\$ 2,012,667	\$	\$

## DILUTION

After this offering, the Class A common stock will represent 90% of our outstanding common stock and the Class B common stock will represent 10% of our outstanding common stock. Because we provide services in Bell Atlantic's local exchange region that could be characterized as long distance services pursuant to Section 271 of the Telecommunications Act of 1996, Verizon cannot own more than 10% of our outstanding common stock until permitted by law. If and when Verizon obtains sufficient relief from the long distance restrictions, Verizon may without additional payment convert its shares of Class B common stock into Class C common stock representing 82% of our outstanding capital stock, based on the total number of shares of common stock outstanding upon completion of this offering. Regardless of whether Verizon obtains that approval, Verizon may also transfer its shares of Class B common stock to a party that could convert these shares into Class A common stock representing 82% of our outstanding capital stock. Therefore, we have presented the following information on the basis of the conversion of the Class B common stock into Class A common stock or Class C common stock.

Our pro forma net tangible book value as of December 31, 1999 was approximately \$1.2 billion, or \$ \_\_\_\_\_ per share of common stock. Our pro forma net tangible book value per share represents our total tangible assets less total liabilities divided by the pro forma total number of shares of common stock outstanding at that date, assuming conversion of the Class B common stock into Class A common stock or Class C common stock. The dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our Class A common stock in this offering and the net tangible book value per share of our common stock immediately following this offering.

Without taking into account any changes in net tangible book value after December 31, 1999, other than to give effect to the sale of the shares of Class A common stock offered by us at an assumed initial public offering price of \$ \_\_\_\_\_ per share, after deducting estimated underwriting discounts and offering expenses payable by us, our pro forma net tangible book value as of December 31, 1999 would have been approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share of common stock. This amount represents an immediate increase in pro forma net tangible book value of \$ \_\_\_\_\_ per share to GTE, our sole stockholder, and an immediate dilution in pro forma net tangible book value of \$ \_\_\_\_\_ per share to new investors purchasing shares of Class A common stock in this offering. If the initial public offering price is higher or lower, the dilution to new investors will be greater or less. The following table illustrates the dilution in pro forma net tangible book value per share to new investors.

Assumed initial public offering price per share .....	\$
Pro forma net tangible book value per share as of December 31, 1999 .....	\$
Increase per share attributable to new investors .....	_____
Pro forma net tangible book value per share after this offering .....	_____
Dilution per share to new investors .....	\$ _____

The following tables summarize on a pro forma basis after giving effect to the recapitalization, as of December 31, 1999, the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by GTE as our sole stockholder, assuming conversion of its Class B common stock into Class C common stock or Class A common stock, and to be paid by new investors purchasing shares of Class A common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share, before deducting estimated underwriting discounts and offering expenses payable by us.

### Post-Conversion Consideration Per Share

	Post-Conversion Shares		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Post-conversion stockholder .....		%	\$	%	\$
New investors .....	_____	_____	_____	_____	
Total .....	=====	=====	=====	=====	

## SELECTED COMBINED FINANCIAL DATA

The selected combined financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the combined financial statements and accompanying notes included elsewhere in this prospectus. The selected combined balance sheet data as of December 31, 1998 and December 31, 1999 and the selected combined results of operations for each of the years in the three-year period ended December 31, 1999 have been derived from our combined financial statements, which have been audited by Arthur Andersen LLP, independent public accountants, and are included elsewhere in this prospectus. The results of operations of the predecessor to Genuity for the six months ended June 30, 1997, have also been derived from financial statements which have been audited by Arthur Andersen LLP and are included elsewhere in this prospectus. Our selected combined balance sheet data as of December 31, 1995, 1996 and 1997 and the selected combined statement of operations data for each of the years in the two year period ending December 31, 1996 were derived from unaudited financial statements that are not included in this prospectus. The selected combined balance sheet data of the predecessor to Genuity as of December 31, 1995 and 1996 and June 30, 1997 and the selected combined results of operations data of the predecessor for each of the years in the two year period ended December 31, 1996 were derived from unaudited financial statements that are not included in this prospectus. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of the results of operations for these periods.

Our selected combined financial data set forth below includes the financial position of some of the operations of Genuity as of December 31, 1995, 1996, 1997, 1998 and 1999 and our results of operations for each of the five years in the period ended December 31, 1999. The selected combined financial data as of December 31, 1995 and 1996 and the results of operations for each of the years in the two-year period ended December 31, 1996 do not include the financial data of BBN Corporation. GTE acquired BBN Corporation effective June 30, 1997. This acquisition was accounted for as a purchase business combination and, consequently, the results of operations of BBN Corporation, excluding the operations of BBN Technologies, which are being retained by GTE, are only included in our results of operations for periods after June 30, 1997. The results of operations of our predecessor represent the results of operations of BBN Corporation, excluding the operations of BBN Technologies. The operations of BBN Technologies are not included in the financial results of either the predecessor or Genuity.

We have prepared the accompanying table to reflect our historical combined financial information in a manner consistent with stand-alone operations by reflecting transactions of GTE and balances attributable to us in our financial statements for all periods presented. The historical financial information may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we operated as a separate, stand-alone entity during the periods covered.

	Predecessor			Genuity				
	Year Ended December 31,		Six Months Ended June 30,	Year Ended December 31,				
	1995	1996	1997	1995	1996	1997	1998	1999
	(in thousands, except per share data)			(in thousands, except per share data)				
<b>Results of Operations Data:</b>								
<b>Revenues</b>								
Access .....	\$ 24,323	\$112,109	\$ 94,126	\$ —	\$ —	\$ 128,838	\$ 350,777	\$ 574,503
Hosting .....	1,045	7,769	9,601	—	—	9,690	33,469	48,811
Transport .....	—	—	—	50,151	57,597	65,221	72,412	89,541
Other .....	300	2,452	2,591	—	—	3,035	14,880	37,569
Total revenues .....	25,668	122,330	106,318	50,151	57,597	206,784	471,538	750,424
<b>Operating expenses</b>								
Cost of goods sold .....	17,778	85,287	92,670	31,470	32,854	184,914	512,967	786,965
Selling, general and administrative .....	28,341	68,602	38,801	1,361	6,856	144,360	316,491	399,529
Depreciation and amortization .....	6,786	13,160	10,536	6,061	6,696	49,483	104,523	188,667
Operating income (loss) .....	(27,237)	(44,719)	(35,689)	11,259	11,191	(171,973)	(462,443)	(624,737)
Net income (loss) .....	(35,404)	(41,600)	(37,663)	7,194	7,844	(172,040)	(467,040)	(626,689)
Basic and diluted income (loss) per common share .....								
Basic and diluted weighted- average common shares outstanding .....								
<b>Other Data:</b>								
<b>Cash flow provided by (used in)</b>								
operating activities .....	\$(60,200)	\$(32,717)	\$ 2,496	\$15,028	\$ 8,349	\$ (79,572)	\$ (501,568)	\$ (399,289)
Capital expenditures .....	13,190	42,945	2,830	616	3,360	299,491	587,831	749,988
	<b>As of December 31,</b>		<b>As of</b>	<b>As of December 31,</b>				
	<b>1995</b>	<b>1996</b>	<b>June 30,</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
	<b>(in thousands)</b>			<b>(in thousands)</b>				
<b>Balance Sheet Data:</b>								
Cash and cash equivalents .....	\$ 36,082	\$102,870	\$ 78,773	\$ 222	\$ 303	\$ 3,063	\$ 13,883	\$ 6,044
Working capital .....	96,332	98,950	62,041	13,414	(24)	368,458	60,670	(258,480)
Property, plant and equipment, net .....	25,671	56,865	72,179	26,292	33,951	366,826	908,039	1,524,390
Total assets .....	157,432	216,589	218,102	61,663	59,379	1,095,989	1,703,461	2,373,159
Total long-term liabilities .....	82,840	80,495	83,334	6,165	1,964	131,255	176,649	133,553
Total liabilities .....	105,132	110,478	140,876	25,995	28,624	608,354	351,242	669,815
Stockholders' equity .....	52,300	106,111	77,226	35,668	30,755	487,635	1,352,219	1,703,344

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion in conjunction with our combined financial statements and the accompanying notes and other financial information appearing elsewhere in this prospectus.*

### Overview

We are a leading facilities-based provider of high quality, managed Internet infrastructure services to enterprises and service providers. We offer a comprehensive suite of managed Internet infrastructure services including: Internet access through dial-up, dedicated and digital subscriber lines; web hosting and content delivery; and value-added e-business services, such as virtual private networks for secure data transmission, security services and voice-over-IP. We operate a state-of-the-art global network that consists of broadband fiber optic cable, points of presence, secure and fault-tolerant data centers and undersea and international fiber optic cable capacity.

### Revenues

We derive our revenues from three operating segments: access, hosting and transport. Our other revenues include international and value-added e-business services.

*Access.* Our Internet access services include dial-up, dedicated and digital subscriber lines. Our access revenues, which are derived from service providers and enterprise customers, are the largest component of our total revenues. Internet access customers typically sign one or two-year contracts providing for monthly-recurring service fees that are either fixed or based on capacity utilization. We also include in our access segment those revenues relating to the development, operation and maintenance of a nationwide dial-up network for America Online. We derived approximately 42% of our total revenues from America Online in 1997, approximately 53% in 1998 and approximately 52% in 1999. Although we expect our revenues from America Online to increase in absolute dollar amounts, we also expect these revenues to decline as a percentage of our total revenues as we expand and broaden our revenue base. In December 1999, we extended our strategic relationship with America Online to provide it with additional dial-up as well as broadband backbone Internet services. In December 1999, we agreed to operate the existing dial-up network for AOL Japan, Inc., and we will be responsible for a significant portion of the continued expansion of that network. Our expanded contractual relationship with America Online extends through 2006. You should refer to the section in "Business" entitled "Our Relationship With America Online".

We also include in access revenues those revenues derived from our provision of dedicated Internet access to AT&T for resale to customers of its Business Communications Services Division in the United States. We derived approximately 18.9% of our total revenues from AT&T in 1997. That percentage decreased to approximately 6.2% in 1998 and approximately 1.5% in 1999 because our strategic relationship with AT&T, under which BBN Corporation acted as the exclusive provider for these services, was terminated in September 1997.

*Hosting.* Our web hosting services provide reliable hosting and a high speed network infrastructure as well as flexible, fast and secure hosting platforms and an experienced technical support staff. Our web hosting services include managed hosting, collocation, content delivery and high availability services. Our hosting revenues are based primarily on monthly fees for server management, physical facilities and bandwidth utilization. Our web hosting services contracts typically range from one to two years.

*Transport.* We provide a broad range of transport services, such as asynchronous transfer mode, or ATM, and private line services. These services are generally purchased by telecommunications carriers and Internet service providers requiring additional capacity and do not include Internet access services. Our transport revenues are typically based on available bandwidth. Our transport services contracts typically range from one to two years.

*Other.* Other revenues include the results of our international business, which consist primarily of Internet access, and domestic value-added e-business services, such as managed security services, virtual private networks for secure data transmission and voice-over-IP. We charge for international access and hosting revenues on a basis consistent with our domestic services. We charge for our security and virtual private network services on a fixed, monthly recurring fee basis and we charge for our voice-over-IP services based on usage. The terms of our value-added e-business service contracts typically range from one to two years.

We believe that our hosting and other revenues will increase substantially as a percentage of our total revenues. We also expect to continue to experience declining prices in our access and transport services in the foreseeable future.

### ***Operating Expenses***

*Cost of Goods Sold.* Cost of goods sold consists primarily of the costs of leasing telecommunications circuits and labor and expenses of operating our network infrastructure. We also include in cost of goods sold the salaries and benefits of our technical, operations and customer service personnel as well as facilities administration, including rent, maintenance and utilities to support our data centers.

We expect our network infrastructure requirements to grow in conjunction with the growth of our overall business and, accordingly, expect our cost of goods sold to increase significantly in the future. We believe our investments in network infrastructure will cause our total data transmission costs to increase substantially in the near term because of higher network operating and maintenance expenses associated with this expansion. Although we expect our total data transmission costs to increase significantly in absolute dollar amounts as we expand, we also expect them to decline as a percentage of revenues in the future as we add and utilize additional capacity and migrate customers from our leased facilities to our own network.

*Selling, General and Administrative.* Selling, general and administrative expenses consist primarily of salaries and benefits for our marketing, sales and support personnel, advertising, trade shows, professional fees and legal and accounting services and other miscellaneous expenses. We expect selling, general and administrative expenses in the future to increase in absolute dollar amounts as we hire additional personnel, expand our operations, invest in new support systems and incur additional costs related to the growth of our business. More specifically, we expect that advertising expenses will increase substantially in the near term as we launch our advertising and branding campaign and substantially increase our sales force. However, we expect selling, general and administrative expenses to decline as a percentage of revenues.

*Depreciation and Amortization.* Depreciation and amortization expenses consist primarily of depreciation of our network infrastructure, including data center equipment and related assets, and amortization of our goodwill and other intangible assets. We expect these expenses to increase in the future as we invest significant capital to expand our network infrastructure and data center capacity.

In 1999, we completed the initial build-out of our high speed fiber network infrastructure in the United States and have started adding additional layers of capacity to meet existing and anticipated market demand. Our network infrastructure has over 17,500 route miles of optical fiber connecting over 100 of the largest metropolitan areas in the United States. Through our recent investments in undersea fiber optic cable capacity, we have expanded the reach of our network into Europe and Asia.

### **Basis of Presentation**

Our selected combined financial data include the financial position of some of the operations of Genuity as of December 31, 1995, 1996, 1997, 1998 and 1999 and their results of operations for each of the five years in the period ended December 31, 1999. Some of the operations and assets included in these combined financial statements were transferred to Genuity on \_\_\_\_\_, 2000. Our combined financial data as of December 31, 1995 and December 31, 1996 and our results of operations for each of the two years in the period ended December 31, 1996 do not include the financial data of BBN Corporation. GTE acquired BBN Corporation effective

June 30, 1997. This acquisition was accounted for as a purchase business combination and, consequently, the results of operations of BBN Corporation, excluding the operations of BBN Technologies, which are being retained by GTE, are only included in our results of operations for periods after June 30, 1997. The results of operations of our predecessor represent the results of operations of BBN Corporation, excluding the operations of BBNT.

The following table sets forth results of operations data derived from our audited financial statements. For the purposes of the following discussion and analysis, the pro forma results of operations for the year ended December 31, 1997 combine the results of operations of our predecessor for the six months ended June 30, 1997 with the results of operations of Genuity for the year ended December 31, 1997, which includes the post-acquisition results of our predecessor effective July 1, 1997. This presentation was included to permit useful and complete year-to-year comparisons between the results of operations for the years ended December 31, 1997, 1998 and 1999. However, this pro forma restated information is not necessarily indicative of the operating results we would have achieved if we had acquired our predecessor on January 1, 1997 and some operating expenses, including amortization expense and allocations from GTE for centralized corporate services and infrastructure costs, were included for the first six months of the year.

### Results of Operations

	Year Ended December 31,		
	Pro Forma 1997	1998 (in thousands)	1999
Revenues . . . . .	\$ 313,102	\$ 471,538	\$ 750,424
Operating expenses:			
Cost of goods sold . . . . .	277,584	512,967	786,965
Selling, general and administrative . . . . .	183,161	316,491	399,529
Depreciation and amortization . . . . .	60,019	104,523	188,667
Total operating expenses . . . . .	520,764	933,981	1,375,161
Operating loss . . . . .	(207,662)	(462,443)	(624,737)
Other income (expense)			
Interest expense, net . . . . .	(1,824)	(20)	(183)
Other, net . . . . .	318	(2,924)	(32)
Loss before income taxes . . . . .	(209,168)	(465,387)	(624,952)
Income taxes . . . . .	535	1,653	1,737
Net loss . . . . .	<u>\$(209,703)</u>	<u>\$(467,040)</u>	<u>\$(626,689)</u>

The following table sets forth results of operations data, expressed as a percentage of total revenues, for the periods indicated.

	Year Ended December 31,		
	1997	1998	1999
Revenues .....	100%	100%	100%
Operating expenses:			
Cost of goods sold .....	89	109	105
Selling, general and administrative .....	58	67	54
Depreciation and amortization .....	19	22	25
Total operating expenses .....	166	198	184
Operating loss .....	(66)	(98)	(84)
Other income (expense)			
Interest expense, net .....	(1)	—	—
Other, net .....	—	(1)	—
Loss before income taxes .....	(67)	(99)	(84)
Income taxes .....	—	—	—
Net loss .....	(67)%	(99)%	(84)%

#### 1999 Compared to 1998 and 1998 Compared to 1997

##### Revenues

	Year Ended December 31,					
	Pro Forma 1997		1998		1999	
	Amount	%	Amount	%	Amount	%
	(in thousands)					
Access .....	\$222,964	71%	\$350,777	74%	\$574,503	77%
Hosting .....	19,291	6	33,469	7	48,811	7
Transport .....	65,221	21	72,412	15	89,541	12
Other .....	5,626	2	14,880	4	37,569	4
Total .....	<u>\$313,102</u>	<u>100%</u>	<u>\$471,538</u>	<u>100%</u>	<u>\$750,424</u>	<u>100%</u>

Our revenues for 1999 increased \$279 million, or 59%, over 1998. Our revenues for 1998 increased \$158 million, or 51%, over 1997.

*Access.* Our access revenues in 1999 increased \$224 million, or 64%, over 1998. Our access revenues in 1998 increased \$128 million, or 57%, over 1997. These increases were due primarily to an 87% increase in 1999 and a 76% increase in 1998 in the number of dial-up access modems deployed, primarily resulting from our expanded relationship with America Online, and to a lesser extent, an increase in the number of dedicated access customers. These increases were, in each year, offset in part by lower prices.

*Hosting.* Our hosting revenues in 1999 increased \$15 million, or 46%, over 1998, due primarily to a 23% increase in the number of our managed hosting customers. Our hosting revenues in 1998 increased \$14 million, or 73%, over 1997 due in large part to our acquisition of a web hosting company in December 1997.

*Transport.* Our transport revenues in 1999 increased \$17 million, or 24%, over 1998, due primarily to the sale of excess capacity on our network as we brought new network segments on line. Our transport revenues in 1998 increased \$7 million, or 11%, due primarily to the increased sale of private line services.



*Other.* Other revenues in 1999 increased \$23 million, or 152%, over 1998 due primarily to the increased sales of Internet access services in international markets. Other revenues in 1998 increased \$9 million, or 164%, due primarily to higher international revenues and increased sales of managed security services.

### ***Operating Expenses***

*Cost of Goods Sold.* Our cost of goods sold in 1999 increased \$274 million, or 53%, over 1998, and our cost of goods sold in 1998 increased \$235 million, or 85%, over 1997. Our cost of goods sold, in each case, increased as a result of the build-out of our network infrastructure to provide access to a broader base of customers, support a growing customer base and provide increased scope to service customers of our Internet access services. Our continued expansion of the dial-up network operated for America Online also contributed to the increase in cost of goods sold in 1999. Our cost of goods sold, as a percentage of total revenues, were 89% in 1997, 109% in 1998 and 105% in 1999. To the extent we are able to increase our base of customers and correspondingly increase our revenues, we expect cost of goods sold to decrease as a percentage of our total revenues. Our telecommunications circuit costs represent a substantial percentage of cost of goods sold. These costs, which largely relate to long haul circuits, are expected to decrease as a percentage of our revenues as we migrate customers from our leased facilities to our own network.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses in 1999 increased \$83 million, or 26%, over 1998. This increase was due primarily to increased selling expenses that were directly attributable to an increase in the number of sales and sales-related employees, both domestically and internationally. The growth in our sales force resulted in higher training expenses and additional costs for expansion of field offices. Also contributing to this increase were the hiring of additional management staff and related operating expenses, increased facilities costs and increased information technology expenses.

Our selling, general and administrative expenses in 1998 increased \$133 million, or 73%, over 1997. The increase was primarily due to customer growth, higher new product development costs and investment in our sales and marketing infrastructure, including expansion of sales channels, advertising costs and other promotional activities related primarily to Internet-based services for enterprise and service providers. Selling, general and administrative expenses also increased due to increases in management staff and related operating expenses across the organization, as well as increased cost of Year 2000 renovation and system testing.

*Depreciation and Amortization.* Our depreciation and amortization expenses in 1999 increased \$84 million, or 81%, over 1998. This increase reflects our continuing investment in our network infrastructure in order to support our growth in customers and services. At December 31, 1999, over 17,500 miles of our fiber optic network were operational and, therefore, being depreciated.

Our depreciation and amortization increased \$44 million, or 74%, in 1998 over 1997. The increase reflects the continuing investment in our network infrastructure, which had over 5,900 miles of fiber deployed and operational and, therefore, being depreciated. We also had a full year of amortization of goodwill related to our acquisitions of BBN Corporation and Genuity Incorporated in 1997, compared to a half year of amortization expense in 1997.

### ***Income Taxes***

Our tax provision was computed on a stand-alone basis. Our federal income tax returns were filed on a consolidated basis with GTE for 1998 and 1999 and the six-month period ended December 31, 1997. We generated pre-tax book losses of \$209 million in 1997, \$465 million in 1998, and \$625 million in 1999 which were benefited by GTE in its consolidated income tax return. We received reimbursements for these tax benefits of \$39 million, \$185 million and \$223 million for the years ended December 31, 1997, 1998 and 1999, respectively. To reflect our income tax provision on a basis that will be comparable to future periods, these reimbursements have been accounted for as capital contributions. Our tax provision represents amounts owed for state taxes. Our ability to use net operating losses may be subject to annual limitations. We may also pay

income taxes in the future due to operating income in some states and foreign countries. In the future, if we achieve operating profits and the net operating losses have been exhausted or have expired, we may experience significant tax expense.

### *Net Loss*

Our net losses increased to \$627 million in 1999 compared to \$467 million in 1998 and \$210 million in 1997. Given our planned operating and capital expenditures, we expect to continue to incur significant net losses over the next several years.

### **Quarterly Results of Operations**

The following table sets forth our unaudited quarterly results of operations data for each of the eight quarters in the two-year period ended December 31, 1999. This data has been derived from our unaudited combined financial statements. We believe that this information has been prepared on the same basis as our audited combined financial statements and that all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the selected quarterly information when read in conjunction with our audited combined financial statements and accompanying notes included elsewhere in the prospectus. The operating results for any particular quarter are not necessarily indicative of the operating results for any future period.

	Three Months Ended							
	Mar. 31, 1998	June 30, 1998	Sep. 30, 1998	Dec. 31, 1998	Mar. 31, 1999	Jun. 30, 1999	Sep. 30, 1999	Dec. 31, 1999
	(in thousands)							
Revenues . . . . .	\$ 103,111	\$ 116,321	\$ 121,424	\$ 130,682	\$ 163,279	\$ 171,383	\$ 188,085	\$ 227,677
Operating expenses:								
Cost of goods sold . .	106,333	123,379	132,674	150,581	176,122	172,306	211,412	227,125
Selling, general and administrative . . . .	78,928	78,460	76,480	82,623	74,003	95,087	103,235	127,204
Depreciation and amortization . . . . .	21,091	23,292	28,091	32,049	40,336	43,390	49,074	55,867
Total operating expenses . . . . .	206,352	225,131	237,245	265,253	290,461	310,783	363,721	410,196
Operating loss . . . . .	(103,241)	(108,810)	(115,821)	(134,571)	(127,182)	(139,400)	(175,636)	(182,519)
Other income (expense):								
Interest income (expense), net . . . .	(333)	200	2,115	(2,002)	(432)	391	948	(1,090)
Other, net . . . . .	(146)	(377)	(219)	(2,182)	(341)	(1,714)	(336)	2,359
Loss before income taxes . . . . .	(103,720)	(108,987)	(113,925)	(138,755)	(127,955)	(140,723)	(175,024)	(181,250)
Income taxes . . . . .	368	387	405	493	356	391	486	504
Net loss . . . . .	<u><u>\$ (104,088)</u></u>	<u><u>\$ (109,374)</u></u>	<u><u>\$ (114,330)</u></u>	<u><u>\$ (139,248)</u></u>	<u><u>\$ (128,311)</u></u>	<u><u>\$ (141,114)</u></u>	<u><u>\$ (175,510)</u></u>	<u><u>\$ (181,754)</u></u>

## **Liquidity and Capital Resources**

We have used cash in our operating and investing activities during all periods. We have funded these cash requirements principally through permanent contributions to capital from GTE and borrowings from its affiliates. Capital contributions amounted to \$611 million in 1997, \$1,327 million in 1998 and \$972 million in 1999. We expect to continue to fund all of our cash requirements prior to this offering through permanent contributions of capital from GTE.

Net cash used in operating activities was \$80 million in 1997, \$502 million in 1998 and \$399 million in 1999. Net cash used in operating activities for these years was primarily the result of operating losses.

Net cash used in investing activities was \$774 million in 1997, \$505 million in 1998 and \$708 million in 1999. Net cash used in investing activities in each of these years was primarily the result of capital expenditures for construction of our network infrastructure, as well as leasehold improvements, furniture, fixtures, computers and other equipment. Our capital expenditures for the three-year period ended December 31, 1999 totaled over \$1.5 billion. Our net cash for investing activities in 1997 included the acquisitions of BBN Corporation, our predecessor, and a web hosting company, which together totaled \$518 million. We currently intend to spend approximately \$1.8 billion to \$2.0 billion during the year ended December 31, 2000 on capital expenditures, of which approximately \$1.2 billion is expected to be spent on the continued expansion of our fiber optic network and approximately \$250 million is expected to be spent on the construction of additional data centers. As of March 31, 2000, we had entered into \$401 million in commitments for these projected expenditures. Our capital expenditures program, as currently contemplated, will require between \$11 billion and \$13 billion over the five-year period ending December 31, 2004, the majority of which will be for the expansion of our network infrastructure. We expect capital expenditures to continue to increase significantly beyond this period, depending on the pace at which we build and expand our network infrastructure and increase our employee base to support our operations and invest in our selling and marketing organization. In the near term, we believe that the proceeds from this offering, along with the capital contribution from GTE prior to this offering, should be sufficient to meet our cash needs through the second quarter of 2001.

Our future cash requirements, however, will depend on a number of factors, including:

- the pace at which we expand our network infrastructure and the associated costs;
- the rate at which customers purchase our services and the pricing of those services;
- the level of marketing required to build our brand, to acquire and retain customers and to maintain a competitive position in the marketplace;
- the rate at which we invest in support systems and engineering; and
- investment opportunities in complementary businesses or technologies.

We will be required to raise additional capital to fund our business plan as currently contemplated. We cannot predict the timing and exact amount of capital that we will be required to raise. We expect to raise this capital principally through public offerings or private placements of debt or equity securities, depending on market conditions. The issuance of additional equity would be dilutive to the holders of our Class A common stock. We are required to obtain the consent of Verizon or other future holders of our Class B common stock prior to issuing any shares of our capital stock, other than pursuant to our long-term incentive plans, and our agreement with Verizon limits our ability to incur debt in excess of agreed upon amounts. You should refer to "Description of Capital Stock" and the section in "Related Party Transactions" entitled "Subscription Agreement" for more information regarding limitations imposed on us by our charter and contractual relationship with Verizon. If we are unable to obtain required additional capital through the issuance of these securities or are required to obtain it on terms less satisfactory than we desire, we may be required to delay the expansion of our business.

In addition, in the future we may wish to selectively pursue possible strategic investments in businesses, technologies or products complementary to ours in order to expand our geographic presence and achieve operating efficiencies. We may not have sufficient liquidity, or we may be unable to obtain additional debt or equity financing on favorable terms or at all, to finance these investments.

#### **Year 2000**

We do not believe that the Year 2000 rollover has had, or will have, any material adverse impact on our operating results or liquidity. We have not experienced any material contingencies with customers or major suppliers nor have we experienced any significant Year 2000 events. The estimated total cost of our Year 2000 compliance efforts is expected to total approximately \$60 million, of which \$54 million has been expended through December 31, 1999.

#### **Inflation**

We do not believe that inflation has had a material adverse impact on our business or operating results during the periods presented.

#### **Recently Issued Accounting Pronouncements**

The Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, on December 3, 1999. We are required to adopt this new accounting guidance, as amended by SAB No. 101A, no later than the second quarter of 2000. We implemented this accounting guidance in the first quarter of 2000.

#### **Quantitative and Qualitative Disclosure About Market Risk**

While our long-term debt bears fixed interest rates, the fair value of our fixed rate long-term debt is sensitive to changes in interest rates. There is a risk that market rates will increase and the required payments will exceed those based on the current market rates. The estimated fair value of long-term debt based on a debt pricing model was lower than its recorded value by approximately \$1.2 million as of December 31, 1998 and by approximately \$6.6 million as of December 31, 1999. Under our current risk management policies, we do not use interest rate derivative instruments to manage our exposure to interest rate changes.